

MARION PUBLIC SCHOOLS

MARION, MICHIGAN

JUNE 30, 2004

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	i-ii
Management's Discussion and Analysis	iii-ix
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet – Governmental Funds	3
Reconciliation of Balance Sheet of Governmental Funds to Net Assets	4
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds	5
Reconciliation of the Statement of Revenue, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	6
Fiduciary Funds	
Statement of Fiduciary Net Assets	7
Statement of Changes in Fiduciary Net Assets	8
Notes to Financial Statements	9-23
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	24
Nonmajor Governmental Fund Types	
Combining Balance Sheet	25
Combining Statement of Revenues, Expenditures and Changes In Fund Balance	26
Financial Statements of Individual Funds	
General Fund	
Comparative Balance Sheet	27
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	28-29
Comparative Analysis of Revenues and Other Financing Sources	30-32
Comparative Analysis of Expenditures and Other Financing Uses	33-37

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS

	<u>PAGES</u>
Special Revenue (School Service) Funds	
Combining Balance Sheet	38
Combining Statement of Revenues, Expenditures and Changes In Fund Balance	39
Food Service Fund	
Comparative Balance Sheet	40
Statement of Revenues, Expenditures and Changes In Fund Balance - Budget and Actual	41
Athletic Activities Fund	
Comparative Balance Sheet	42
Statement of Revenues, Expenditures and Changes In Fund Balance - Budget and Actual	43
Debt Retirement Funds	
Combining Balance Sheet	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	45
Fiduciary Fund Types	
Combining Statement of Fiduciary Net Assets	46-47
Combining Statement of Changes in Fiduciary Net Assets	48-49
Agency Fund	
Statement of Cash Receipts and Disbursements	50-51
Other Information	
Schedule of 2003 Tax Roll	52
Comparative Schedule of Investments	53
Schedule of Bonds Payable	
1998 School Improvement Bonds	54
2000 School Building and Site Bonds	55-56
2000 Refunding Bonds	57-59

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CERTIFIED PUBLIC ACCOUNTANTS

August 18, 2004

INDEPENDENT AUDITORS' REPORT

Board of Education
Marion Public Schools
Marion, Michigan

We have audited the accompanying basic financial statements of Marion Public Schools, Marion, Michigan, as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Marion Public Schools' management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Marion Public Schools, Marion, Michigan, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the District has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* as of July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2004, on our consideration of Marion Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through ix and 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepting in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion Public Schools, Marion, Michigan basic financial statements. The combining and individual fund financial statements and other supplementary information found on pages 25 through 59 are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MARION PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004

Marion Public Schools, a K-12 school district located in Osceola and Clare Counties, Michigan has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Marion Public Schools administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004. In future years, comparative information will be provided.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

A. Fund Financial Statements

For the most part, the format of the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds which include Special Revenue Funds and Debt Service Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

B. Government-wide Financial Statements

The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2004 for the Marion Public Schools. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The District's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as all debt of the District.

MARION PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004

C. Summary of Net Assets

The following schedule summarizes the net assets at fiscal year ended June 30, 2004:

Assets	
Current Assets	\$ 2,084,891
Non Current Assets	
Capital Assets	7,891,795
Less Accumulated Depreciation	(2,464,397)
Total Non Current Assets	5,427,398
 Total Assets	 \$ 7,512,289
Liabilities	
Current Liabilities	\$ 1,329,212
Non Current Liabilities	3,447,024
 Total Liabilities	 4,776,236
Net Assets	
Invested in Capital Assets	
Net of Related Debt	2,033,749
Restricted	169,153
Unrestricted	533,151
Total Net Assets	2,736,053
 Total Liabilities and Net Assets	 \$ 7,512,289

D. Analysis of Financial Position

During the fiscal year ended June 30, 2004, the District's net assets decreased by \$1,020,555. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

MARION PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2004, \$318,649 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2004, \$150,588 of expenditures was capitalized and recorded assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

3. Retirement Incentive

For the year ended June 30, 2004, the District offered an early retirement incentive program. The one time cost of this program was approximately \$421,000.

4. Declining Enrollment

Under the State of Michigan foundation allowance funding structure, the district receives \$6,700 per pupil. The District's blended pupil count dropped by 41 students from the previous year. This results in \$274,700 less foundation allowance for the year.

E. Results of Operations

For the fiscal year ended June 30, 2004, the results of operations, on a District-wide basis, were:

	<u>Amount</u>	<u>% of Total</u>	
General Revenues			
Property Taxes	\$ 1,239,601	18.67	%
Investment Earnings	7,674	0.12	
State Sources	3,855,935	58.06	
Donations	100,000	1.50	
Other	<u>33,703</u>	<u>0.51</u>	
Total General	\$ <u>5,236,913</u>	<u>78.86</u>	%
Program Revenues			
Charges for Services	\$ 114,975	1.73	%
Operating Grants	<u>1,288,916</u>	<u>19.41</u>	
Total Program	\$ <u>1,403,891</u>	<u>21.14</u>	%
Total Revenues	\$ <u><u>6,640,804</u></u>	<u><u>100.00</u></u>	%

MARION PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

Expenses

Instruction	\$ 4,384,585	57.23	%
Supporting Services	2,413,637	31.50	
Food Service	227,017	2.96	
Athletic Activities	135,862	1.77	
Interest on Long-Term	178,315	2.33	
Other Transactions	3,294	0.05	
Unallocated	<u>318,649</u>	<u>4.16</u>	
Total Expenses	\$ <u>7,661,359</u>	<u>100.00</u>	%
Change in Net Assets	\$ <u><u>(1,020,555)</u></u>		

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2003-2004 fiscal year, the District levied \$950,411 in non-homestead property taxes.

The following table summarizes the non-homestead property tax levies for operations for the past two years:

<u>Fiscal Year</u>	<u>Non-Homestead Tax Levy</u>
2003-2004	\$ 950,411
2002-2003	\$ 904,541

MARION PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2004

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 80% of the current year's fall count and 20% of the prior year's spring count. For the 2003-2004 fiscal year, the District received \$6,700 per student FTE.

3. Student Enrollment

The following schedule summarizes the blended student enrollment for the past two fiscal years:

<u>Fiscal Year</u>	<u>Blended Student FTE</u>
2003-2004	756
2002-2003	797

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2004, federal, state, and other grants accounted for \$1,288,916.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

MARION PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET OVER (UNDER)
Total Revenues	\$ <u>0</u>	\$ <u>0</u>	\$ <u>6,080,256</u>	\$ <u>6,080,256</u>
<u>EXPENDITURES</u>				
Instruction	\$ 3,880,674	\$ 3,842,649	\$ 4,411,977	\$ 569,328
Supporting	2,371,063	2,457,809	2,600,291	142,482
Other	<u>21,500</u>	<u>21,500</u>	<u>1,866</u>	<u>(19,634)</u>
Total	\$ <u>6,273,237</u>	\$ <u>6,321,958</u>	\$ <u>7,014,134</u>	\$ <u>692,176</u>

The total expenditures variance of \$692,176 is 10.95% of total budgeted expenditures.

The District was not able to locate the adopted revenue budget for 2003-2004.

H. Capital Asset and Debt Administration

1. Capital Assets

At June 30, 2004, the District has \$7,891,795 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$33,588 over the prior fiscal year. Depreciation expense for the year amounted to \$318,649, bringing the accumulated depreciation to \$2,464,397 as of June 30, 2004.

2. Long-Term Debt

At June 30, 2004, the District had \$3,393,649 in bonded debt outstanding. This represents a reduction of \$110,000 from the amount outstanding at the close of the prior fiscal year. Also, during the year the District borrowed \$78,734 to connect to the Village of Marion water supply at the high school. This balance is still outstanding at June 30, 2004.

I. Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

MARION PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004

With the current economic environment in the State of Michigan and its effect on public schools, uncertainty surrounds the level at which districts will be funded by the student foundation allowance for the 2004-2005 school year. Local school districts have not received the expected funding over the past two years. Yet, budgets must be set, and we have used our best estimate in establishing the budget for the upcoming school year. This concern, along with a continued decline in enrollment poses a challenge in regard to staffing issues, while striving to continue appropriate educational programming.

Infrastructure concerns are another challenge for the district. Like many other school districts in Michigan, work on updating and maintaining our school buildings has been deferred for several years. This includes equipment in our buildings that are becoming a safety issue. These needs must be addressed as soon as possible.

Health insurance and retirement rates continue to rise. The State of Michigan has continued to pass costs for retirement to the local districts, without additional funding increases in our foundation allowance. Health insurance is an issue that must be addressed in order to provide decent health care for our employees, yet maintain the integrity and viability for our school system now and into the future.

All employee contracts are open and will be negotiated this year. Expectations for cost of living increases are high, but not possible in our current economic environment.

Expectations for increased student achievement are high; due to "Education, Yes!" and due to the choices parents have in regard to education for their children. To be competitive and to meet the requirements of the state initiative mentioned above, curriculum work and staff development must take place. In addition, the implication of "No Child Left Behind" will have a significant impact on our budgetary needs and decisions.

Marion Public Schools is working hard to face these challenges. To improve test scores and student achievement, our staff in the elementary school has successfully written Comprehensive School Reform grants to provide staff development and the implementation of a researched based reading program. Teachers at the Junior High and High School have developed and implemented a plan for staff development and curriculum alignment through our delayed starting time one hour each week. Our Consolidated Grants are being researched to implement changes for improvement in staffing to suppose improved student achievement for our children considered to be "At Risk."

J. Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Marion Public Schools, 501 W. Main Street, Marion, MI 49665.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2004

ASSETS

CURRENT ASSETS

Cash	\$ 860,928
Taxes Receivable	1,208
Inventories	7,410
Due From Other Governmental Units	823,218
Investments	392,127
Total Current Assets	<u>2,084,891</u>

NON CURRENT ASSETS

Capital Assets	7,891,795
Less Accumulated Depreciation	<u>(2,464,397)</u>
Total Non Current Assets	<u>5,427,398</u>
TOTAL ASSETS	<u><u>\$ 7,512,289</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 201,087
Accrued Interest Payable	29,245
Salaries Payable	463,533
Due to Other Governmental Units	2,420
Note Payable	350,000
Deferred Revenue	151,141
Current Portion of Non Current Liabilities	131,786
Total Current Liabilities	<u>1,329,212</u>

NON CURRENT LIABILITIES

Bonds Payable	3,393,649
Water Connection Loan	78,734
Compensated Absences	106,427
Less Current Portion of Non Current Liabilities	<u>(131,786)</u>
Total Non Current Liabilities	<u>3,447,024</u>
Total Liabilities	<u>4,776,236</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt	2,033,749
Restricted for Debt Service	169,153
Unrestricted	533,151
Total Net Assets	<u>2,736,053</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,512,289</u></u>

The notes to the financial statements are an integral part of this statement.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR	OPERATING	ACTIVITIES
		SERVICES	GRANTS	NET (EXPENSE)
				REVENUE AND
				CHANGES IN
				NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction				
Basic Programs	\$ 3,352,088	\$ 9,117	\$ 272,728	\$ (3,070,243)
Added Needs	1,032,497	0	780,440	(252,057)
Supporting Services				
Pupil	210,342	0	32,160	(178,182)
Instructional Staff	282,808	0	39,680	(243,128)
General Administration	339,064	0	0	(339,064)
School Administration	511,540	0	0	(511,540)
Business	107,202	0	0	(107,202)
Operation and Maintenance of Plant	535,140	307	0	(534,833)
Pupil Transportation Services	427,541	0	0	(427,541)
Food Service Activities	227,017	65,659	163,908	2,550
Athletic Activities	135,862	39,892	0	(95,970)
Interest on Long Term Debt	178,315	0	0	(178,315)
Other Transactions	3,294	0	0	(3,294)
Unallocated Depreciation	318,649	0	0	(318,649)
Total Governmental Activities	<u>\$ 7,661,359</u>	<u>\$ 114,975</u>	<u>\$ 1,288,916</u>	(6,257,468)
<u>GENERAL REVENUES</u>				
Property Taxes -General Purposes				950,411
Property Taxes -Debt Service				289,190
Investment Earnings				7,674
State Sources				3,855,935
Donations				100,000
Other				33,703
Total General Revenues				<u>5,236,913</u>
Change in Net Assets				(1,020,555)
<u>NET ASSETS</u> - Beginning of Year				<u>3,756,608</u>
<u>NET ASSETS</u> - End of Year				<u>\$ 2,736,053</u>

The notes to the financial statements are an integral part of this statement.

MARION PUBLIC SCHOOLS

MARION, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2004

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash	\$ 630,143	\$ 230,785	\$ 860,928
Taxes Receivable	790	418	1,208
Due From Other Funds	21,653	4,495	26,148
Inventories	0	7,410	7,410
Due From Other Governmental Units	823,218	0	823,218
Investments	389,628	2,499	392,127
TOTAL ASSETS	<u>\$ 1,865,432</u>	<u>\$ 245,607</u>	<u>\$ 2,111,039</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 200,940	\$ 147	\$ 201,087
Salaries Payable	463,533	0	463,533
Due to Other Funds	0	26,148	26,148
Due to Other Governmental Units	2,420	0	2,420
Note Payable	350,000	0	350,000
Deferred Revenue	151,141	0	151,141
Total Liabilities	<u>1,168,034</u>	<u>26,295</u>	<u>1,194,329</u>
<u>FUND BALANCES</u>			
Reserved for Inventory	0	7,410	7,410
Reserved for Debt Retirement	0	198,398	198,398
Designated for Long-Term Liabilities	175,000	0	175,000
Designated for Food Service and Athletic Activities	0	13,504	13,504
Unreserved, Undesignated	522,398	0	522,398
Total Fund Balances	<u>697,398</u>	<u>219,312</u>	<u>916,710</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,865,432</u>	<u>\$ 245,607</u>	<u>\$ 2,111,039</u>

The notes to the financial statements are an integral part of this statement.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2004

Total Governmental Fund Balances	\$	916,710
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the funds

The cost of the capital assets is	7,891,795	
Accumulated depreciation is	<u>(2,464,397)</u>	5,427,398

Long term liabilities are not due and payable in the current period and are
not reported in the funds

Bonds Payable		(3,393,649)
Water Connection Loan		(78,734)
Compensated Absences		(106,427)

Accrued interest is not included as a liability in government funds, it is recorded when paid		<u>(29,245)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>2,736,053</u></u>
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The notes to the financial statements are an integral part of this statement.

MARION PUBLIC SCHOOLS

MARION, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2004

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 1,097,573	\$ 396,164	\$ 1,493,737
State Sources	4,375,347	16,168	4,391,515
Federal Sources	494,750	147,740	642,490
Other Transactions	112,586	476	113,062
Total Revenues	6,080,256	560,548	6,640,804
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	3,378,102	0	3,378,102
Added Needs	1,033,875	0	1,033,875
Supporting Services			
Pupil	210,342	0	210,342
Instructional Staff	285,226	0	285,226
General Administration	383,207	0	383,207
School Administration	512,251	0	512,251
Business	108,227	0	108,227
Operation and Maintenance	672,838	0	672,838
Pupil Transportation Services	428,200	0	428,200
Food Service Activities	0	226,793	226,793
Athletic Activities	0	135,862	135,862
Debt Service			
Principal	0	110,000	110,000
Interest	0	178,527	178,527
Other Transactions	1,866	1,428	3,294
Total Expenditures	7,014,134	652,610	7,666,744
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(933,878)	(92,062)	(1,025,940)
<u>OTHER FINANCING SOURCES (USES)</u>			
Loan Proceeds	78,734	0	78,734
Operating Transfers In	0	94,595	94,595
Operating Transfers Out	(94,595)	0	(94,595)
Total Other Financing Sources (Uses)	(15,861)	94,595	78,734
Net Change in Fund Balance	(949,739)	2,533	(947,206)
<u>FUND BALANCE</u> - Beginning of Year	1,647,137	216,779	1,863,916
<u>FUND BALANCE</u> - End of Year	\$ 697,398	\$ 219,312	\$ 916,710

The notes to the financial statements are an integral part of this statement.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

Net change in Fund Balances Total Governmental Funds	\$ (947,206)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(318,649)
Capital Outlay	150,588

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	29,457
Accrued Interest Payable - End of Year	(29,245)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	110,000
------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------

The issuance of Long-Term Debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities over the life of the Long-Term bond issue.

Loan Proceeds	(78,734)
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Employees Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Compensated Absences - Beginning of Year	169,661
Compensated Absences - End of Year	(106,427)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,020,555)</u>
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The notes to the financial statements are an integral part of this statement.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUND
<u>ASSETS</u>		
Cash	\$ 19,147	\$ 27,761
Interest Receivable	11,521	0
Scholarship Loans	89,755	0
Investments	<u>158,910</u>	<u>23,754</u>
 TOTAL ASSETS	 <u>\$ 279,333</u>	 <u>\$ 51,515</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 <u>LIABILITIES</u>		
Due to Groups and Organizations	\$ 0	\$ 51,515
 <u>NET ASSETS</u>		
Reserved for		
Endowments	9,552	0
Student Loans	265,214	0
Student Scholarships	<u>4,567</u>	<u>0</u>
 Total Net Assets	 <u>279,333</u>	 <u>0</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 279,333</u>	 <u>\$ 51,515</u>

The notes to the financial statements are an integral part of this statement.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2004

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
<u>ADDITIONS</u>	
Earnings on Investments and Deposits	\$ 9,025
Donations and Endowments Received	<u>97,347</u>
Total Additions	<u>106,372</u>
<u>DEDUCTIONS</u>	
Scholarships	1,000
Bank Charges	<u>393</u>
Total Deductions	<u>1,393</u>
Changes in Net Assets	104,979
<u>NET ASSETS</u> - Beginning of Year	<u>174,354</u>
<u>NET ASSETS</u> - End of Year	<u><u>\$ 279,333</u></u>

The notes to the financial statements are an integral part of this statement.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Marion Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant components of GASB Statement 34 include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has implemented the provisions of Statement #34 effective July 1, 2003.

A. Reporting Entity

The School District is located in Osceola and Clare Counties with its administrative offices located in Marion, Michigan. The District operates under an elected 7-member board of education and provides services to its 756 students in elementary, high school, special education instruction, guidance, health, transportation, food service, athletics and recreation. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. The District is not included in any other governmental reporting entity as defined by the generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *GENERAL FUND* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Other Non-Major Funds

The *SPECIAL REVENUE FUNDS* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *DEBT SERVICE FUNDS* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary Funds

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *PRIVATE PURPOSE TRUST FUND* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where the principal is considered to be either expendable or non-expendable and the earnings may be spent. These funds are not reported on the District financial statements as they are not used to support District operations or programs. The District currently accounts for three separate non-expendable trust funds and one expendable trust fund.

The *AGENCY FUND* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004, the foundation allowance was based on pupil membership counts taken in February and September of 2003. For fiscal year ended June 30, 2004, the per pupil foundation allowance was \$6,700 for Marion Public Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2003 to August 2004. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and Investments

Cash includes amounts in demand deposits and certificates of deposit with original maturities of one year or less.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States.
- (e) United States government or federal agency obligation repurchase agreements.
- (f) Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- (g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

The School's deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1 and billed and due December 1. Unpaid taxes become delinquent as of February 14th and are subject to penalties and interest after that date. Uncollected taxes at year-end are not material.

For the year ended June 30, 2004, the District levied the following amounts per \$1,000 of taxable valuation:

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

<u>Fund</u>	<u>Mills</u>
General Fund – Non-homestead	18.0000
2000 Debt Retirement Fund – Homestead and non-homestead	1.1000
2000 Refunding Debt Retirement Fund – Homestead and non-homestead	1.7500

4. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. In the General Fund, the School District considers all supplies to be consumed when acquired and any inventories on hand at year-end are considered to be immaterial. The food service inventory consists of U.S.D.A. commodities and other food products held for consumption. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	25 - 50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$1,000.

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. For bonds issued after the implementation of GASB 34, the following apply: Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance and issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other financing uses.

8. Fund Equity

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not utilized by the District.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
2. Public hearings are conducted to obtain taxpayer comments.

MARION PUBLIC SCHOOLS

MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

3. The budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any are noted in the required supplementary information section.
4. The superintendent is charged with general supervision of the budgets and shall hold the budgets and shall hold the department heads responsible for performance of their responsibilities.
5. During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
6. Budgeted amounts are as originally adopted on June 30, 2003, or as amended by the School Board of Education on June 14, 2004.

B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds:

General Fund expenditures of \$7,014,134 exceeded appropriations of \$6,321,958 by \$692,176. School Service Fund – Food Service Fund expenditures of \$226,793 exceeded appropriations of \$212,947 by \$13,846.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments – Credit Risk

The District's deposits and investments are all on deposit with banks within the State of Michigan and Michigan School District Liquid Asset Fund Plus.

A breakdown of deposits and investments is as follows:

Deposits

At year-end, the carrying amount of the District's deposits was \$907,836. The bank balance was \$789,787 of which \$365,976 was covered by federal depository insurance and \$423,811 was uninsured and uncollateralized. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the District, subject to minimal risk.

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are

MARION PUBLIC SCHOOLS

MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name.

At year end, the only investments were money market accounts and investment trust funds.

	Category			Carrying Amount
	1	2	3	
Money Market Accounts and Certificates of Deposit	\$ 574,791	\$ 0	\$ 0	\$ 574,791

Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash	\$ 860,928	\$ 0	\$ 46,908	\$ 907,836
Investments	0	392,127	182,664	574,791
	\$ 860,928	\$ 392,127	\$ 229,572	\$ 1,482,627

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate; including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor And Other Funds	Total
Receivables			
Taxes	\$ 790	\$ 418	\$ 1,208
Scholarship Loans and Interest Receivable	0	101,276	101,276
Other Governmental Units	823,218	0	823,218
Total Receivables	\$ 824,008	\$ 101,694	\$ 925,702

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Grant Receipts Received, But Not Yet Utilized	\$ 0	\$ 151,141

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

C. Capital Assets

A summary of changes in the District's capital assets follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Books	\$ 175,939	\$ 8,418	\$ 18,635	\$ 165,722
Buildings	3,429,119	0	0	3,429,119
Buses	658,337	0	76,210	582,127
Equipment and Furniture	1,984,397	6,738	22,155	1,968,980
Improvements	1,490,422	135,432	0	1,625,854
Land	56,818	0	0	56,818
Other Vehicles	63,175	0	0	63,175
Subtotal	7,858,207	150,588	117,000	7,891,795
Accumulated Depreciation	2,262,748	318,649	117,000	2,464,397
Net capital assets	\$ 5,595,459	\$ (168,061)	\$ 0	\$ 5,427,398

Depreciation for the fiscal year ended June 30, 2004 amounted to \$318,649. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Self-Liquidating Bonds were issued by the State of Michigan in the name of the District as part of a state-wide lawsuit settlement.

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2004:

	General Obligation Serial Bonds	Self- Liquidating Bonds	Water Connection Loan	Compensated Absences Payable	Total
Balance July 1, 2003	\$ 3,465,000	\$ 38,649	\$ 0	\$ 169,661	\$ 3,673,310
Increase (Decrease)	(110,000)	0	78,734	(63,234)	(94,500)
Balance June 30, 2004	3,355,000	38,649	78,734	106,427	3,578,810
Less current portion	(130,000)	0	(1,786)	0	(131,786)
Total due after one year	\$ 3,225,000	\$ 38,649	\$ 76,948	\$ 106,427	\$ 3,447,024

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

At June 30, 2004, the School's Long-Term Debt consisted of the following:

General Obligation Serial Bonds

2000 refunding bonds due in annual installments of \$100,000 to \$105,000 through May 1, 2021, interest at 4.75% to 5.50% \$ 1,755,000

2000 school building and site bonds due in annual installments of \$25,000 to \$170,000 through May 1, 2020, interest at 5.00% to 5.375% 1,600,000

Self-Liquidating Bonds

1998 Durant Settlement Bonds due in annual principal payments of \$3,344 to \$16,430 through May 15, 2013, interest at 4.070%. The funding for this payment to be provided by the State of Michigan through restricted State Aid 38,649

Water Connection Loan

\$78,734 loan from the Village of Marion dated March 1, 2004 to finance new water line connection at High School. Semi annual payments of \$1,873 including interest at 2.5% due March 1 and August 31 each year through March 1, 2034 78,734

Compensated Absences Payable

Accumulated Sick and Vacation Pay 106,427

TOTAL LONG-TERM DEBT \$ 3,578,810

The annual requirements to amortize debt outstanding as of June 30, 2004, including interest payments of \$1,778,070 are as follows:

Year ending June 30,	Principal	Interest	Amounts Payable
2005	\$ 131,786	\$ 175,199	\$ 306,985
2006	136,834	173,161	309,995
2007	163,310	165,997	329,307
2008	160,271	156,250	316,521
2009	170,456	148,527	318,983
2010-2014	1,011,044	607,116	1,618,160
2015-2019	1,282,058	316,612	1,598,670
2020-2024	383,658	30,710	414,368
2025-2029	15,457	3,273	18,730
2029-2034	17,509	1,225	18,734
	3,472,383	1,778,070	5,250,453
Compensated absences	106,427	0	106,427
	<u>\$ 3,578,810</u>	<u>\$ 1,778,070</u>	<u>\$ 5,356,880</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

The annual requirements to amortize the accrued compensated absences are uncertain because it is unknown when the employees will use the benefit.

E. Short-Term Debt

On April 29, 2004 the District issued a State Aid Note in the amount of \$350,000. The note matures on August 24, 2004 with interest at 1.02%. The District has pledged its future State Aid revenue for payment of this liability at maturity.

F. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2004, were:

	Interfund Receivables	Interfund Payables
General Fund	\$ 21,653	\$ 0
School Service Fund – Food Service Fund	0	21,653
2000 Debt Retirement Fund	4,495	0
2000 Refunding Debt Retirement Fund	0	4,495
	<u>\$ 26,148</u>	<u>\$ 26,148</u>

Interfund transfers are as shown in the individual fund financial statements at June 30, 2004, were:

	Transfers In	Transfers Out
General Fund	\$ 0	\$ 94,595
School Service Fund – Athletic Activities	94,595	0
	<u>\$ 94,595</u>	<u>\$ 94,595</u>

G. Designated and Reserved Fund Balance

The School has designated the General Fund balance as follows:

1. Long-Term Liabilities

The contracts with teachers and non-teaching personnel have various provisions for the accumulation of sick pay. Upon retirement, if the employee has met certain contract provisions, the employee may receive a cash payment for the accumulated benefits. At June 30, 2004, the liability to the employees for accumulated sick leave and related fringe benefits is estimated at \$106,427. As of June 30, 2004, the School has designated \$175,000 of its General Fund balance towards paying this future long-term obligation.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 4 – OTHER INFORMATION

A. Employee Retirement System

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2004, were 12.99%. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2004, 2003 and 2002 were \$500,916, \$511,961 and \$463,220, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

B. Single Audit Report

The School District is required to have an audit performed in accordance with the guidelines of the Single Audit Act of 1984, as amended. This audit is being performed and the reports based thereon will be issued under separate cover.

C. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2004 or any of the prior three years.

D. Interest Information

For the year ended June 30, 2004, interest income and interest expense for all governmental fund types and trust funds is summarized as follows:

	INTEREST	
	INCOME	EXPENSE
General Fund	\$ 6,251	\$ 2,481
Special Revenue Fund - Food Service Fund	36	0
2000 Debt Retirement Fund	562	85,419
2000 Refunding Debt Retirement Fund	825	93,108
B. Dee Dee Mancha - Hammar Memorial Expendable Scholarship Trust Fund	31	0
White-Helfrich Nonexpendable Loan Trust Fund	8,655	0
Dorald L. Giddings Nonexpendable Scholarship Fund	65	0
Jennie P. Oppen Nonexpendable Loan Trust Fund	274	0
	<u>\$ 16,699</u>	<u>\$ 181,008</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

E. "Durant" Case Settlement

The school district has accepted an offer made by the State of Michigan to all "non-plaintiff" school districts for a settlement of the "Durant" case which was a suit alleging underfunding by the State of Michigan for State mandated special education programs. Marion Public Schools will receive a total settlement from this case of \$120,994, and the State will pay it in the following manner:

- (a) 50% of the settlement (or \$60,497) will be paid to the District over a ten-year period beginning November 15, 1998. These funds are restricted and can be used only for school buses, electronic technology, instructional material and software, school security, textbooks, infrastructure or infrastructure improvement, training for technology, or to reduce or eliminate voter-approved debt that was issued prior to 11/19/97.
- (b) 50% of the settlement (or \$60,497) was received by the District on November 24, 1998, from the proceeds of a bond issue from a Michigan Bond Authority bond program. These funds are being accounted for in the 1998 Durant Capital Projects Fund. Proceeds from the bonds may be used for any purpose specified in Section 1351a of the Revised School Code.

Debt service amounts for these bonds will be allocated annually to the District through restricted State Aid. The School District does not actually receive these funds. Instead, the District has arranged for the State of Michigan to make these disbursements directly to the bond holders from the restricted State Aid allocated to the District for this specific purpose.

F. Lease Information

The School District leases copy machines and digital duplicators. The total rental expense for the fiscal years ended June 30, 2004 and June 30, 2003, was \$10,184 and \$7,045 respectively. The future minimum payments are summarized below:

<u>YEAR ENDING</u>	<u>AMOUNTS</u>
2005	\$ 11,682
2006	11,118
2007	7,141
2008	7,035
2009	2,720
	<u>\$ 39,696</u>

MARION PUBLIC SCHOOLS

MARION, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET OVER (UNDER)
<u>REVENUES</u>				
Local Sources	\$ 0	\$ 0	\$ 1,097,573	\$ 1,097,573
State Sources	0	0	4,375,347	4,375,347
Federal Sources	0	0	494,750	494,750
Other Transactions	0	0	112,586	112,586
Total Revenues	0	0	6,080,256	6,080,256
<u>EXPENDITURES</u>				
Instruction				
Basic Programs	2,874,810	2,855,885	3,378,102	522,217
Added Needs	1,005,864	986,764	1,033,875	47,111
Supporting Services				
Pupil	336,957	304,513	210,342	(94,171)
Instructional Staff	176,557	190,217	285,226	95,009
General Administration	176,659	251,859	383,207	131,348
School Administration	499,324	495,154	512,251	17,097
Business	76,917	96,917	108,227	11,310
Operation and Maintenance	687,142	687,142	672,838	(14,304)
Pupil Transportation Services	417,507	432,007	428,200	(3,807)
Other Transactions	21,500	21,500	1,866	(19,634)
Total Expenditures	6,273,237	6,321,958	7,014,134	692,176
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,273,237)	(6,321,958)	(933,878)	5,388,080
<u>OTHER FINANCING SOURCES (USES)</u>				
Loan Proceeds	0	0	78,734	78,734
Operating Transfers Out	(124,384)	(127,227)	(94,595)	32,632
Total Other Financing Sources (Uses)	(124,384)	(127,227)	(15,861)	111,366
Net Change in Fund Balance	(6,397,621)	(6,449,185)	(949,739)	5,499,446
<u>FUND BALANCE</u> - Beginning of Year	0	0	1,647,137	1,647,137
<u>FUND BALANCE</u> - End of Year (Deficit)	\$ (6,397,621)	\$ (6,449,185)	\$ 697,398	\$ 7,146,583

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2004

	SPECIAL REVENUE FUNDS	DEBT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash	\$ 32,805	\$ 197,980	\$ 230,785
Taxes Receivable	0	418	418
Due From Other Funds	0	4,495	4,495
Inventory	7,410	0	7,410
Investments	2,499	0	2,499
TOTAL ASSETS	<u>\$ 42,714</u>	<u>\$ 202,893</u>	<u>\$ 245,607</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 147	\$ 0	\$ 147
Due to Other Funds	21,653	4,495	26,148
Total Liabilities	<u>21,800</u>	<u>4,495</u>	<u>26,295</u>
<u>FUND BALANCE</u>			
Reserved for Inventory	7,410	0	7,410
Reserved for Debt Retirement	0	198,398	198,398
Unreserved; Designated for Food Service and Athletic Activities	13,504	0	13,504
Total Fund Balances	<u>20,914</u>	<u>198,398</u>	<u>219,312</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 42,714</u>	<u>\$ 202,893</u>	<u>\$ 245,607</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2004

	SPECIAL REVENUE FUNDS	DEBT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 105,587	\$ 290,577	\$ 396,164
State Sources	16,168	0	16,168
Federal Sources	147,740	0	147,740
Other Transactions	0	476	476
	<hr/>	<hr/>	<hr/>
Total Revenues	269,495	291,053	560,548
	<hr/>	<hr/>	<hr/>
<u>EXPENDITURES</u>			
Food Service Activities	226,793	0	226,793
Athletic Activities	135,862	0	135,862
Debt Service			
Principal	0	110,000	110,000
Interest	0	178,527	178,527
Other Transactions	0	1,428	1,428
	<hr/>	<hr/>	<hr/>
Total Expenditures	362,655	289,955	652,610
	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(93,160)	1,098	(92,062)
	<hr/>	<hr/>	<hr/>
<u>OTHER FINANCING SOURCES</u>			
Operating Transfers In	94,595	0	94,595
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	1,435	1,098	2,533
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	19,479	197,300	216,779
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCE</u> - End of Year	<u>\$ 20,914</u>	<u>\$ 198,398</u>	<u>\$ 219,312</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

GENERAL FUND
COMPARATIVE BALANCE SHEET

JUNE 30,

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Cash	\$ 630,143	\$ 573,298
Taxes Receivable	790	1,557
Accounts Receivable	0	12,653
Due from Other Funds	21,653	12,622
Due from Other Governmental Units	823,218	833,715
Investments	389,628	719,715
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 1,865,432</u>	<u>\$ 2,153,560</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 200,940	\$ 145,635
Due to Other Government	2,420	0
Note Payable	350,000	0
Salaries Payable	463,533	244,200
Deferred Revenue	151,141	116,588
	<hr/>	<hr/>
Total Liabilities	<u>1,168,034</u>	<u>506,423</u>
 <u>FUND BALANCE</u>		
Unreserved		
Designated For Long Term Liabilities	175,000	175,000
Undesignated	522,398	1,472,137
	<hr/>	<hr/>
Total Fund Balance	<u>697,398</u>	<u>1,647,137</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 1,865,432</u>	 <u>\$ 2,153,560</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2004

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2003

	2004		2003
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Local Sources	\$ 0	\$ 1,097,573	\$ 951,458
State Sources	0	4,375,347	4,766,283
Federal Sources	0	494,750	482,515
Other Transactions	0	112,586	107,714
Total Revenues	\$ 0	6,080,256	6,307,970
<u>EXPENDITURES</u>			
Instruction			
Basic Programs			
Elementary	1,295,732	1,644,163	1,430,705
High School	1,472,929	1,626,865	1,542,275
Pre-Kindergarten	87,224	107,074	78,931
Added Needs			
Special Education	415,268	486,375	475,416
Compensatory Education	571,496	539,805	563,477
Alternative Education	0	7,695	63,752
Supporting Services			
Pupil			
Guidance	136,100	106,600	111,443
Other Pupil Services	168,413	103,742	158,241
Instructional Staff			
Educational Media Services	80,820	168,011	92,626
Technology Assisted Instruction	109,397	117,215	130,708
General Administration			
Board of Education	55,250	98,008	51,327
Executive Administration	196,609	285,199	180,036
School Administration			
Office of the Principal	495,154	512,251	456,433
Business			
Fiscal Services	96,917	107,612	89,414
Other Business Services	0	615	0

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2004

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2003

	<u>2004</u>		<u>2003</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
Operations and Maintenance	687,142	672,838	576,319
Pupil Transportation Services	432,007	428,200	466,463
Other Transactions	21,500	1,866	7,494
Total Expenditures	6,321,958	7,014,134	6,475,060
Excess of Revenues Over (Under) Expenditures	(6,321,958)	(933,878)	(167,090)
<u>OTHER FINANCING SOURCES (USES)</u>			
Loan Proceeds	0	78,734	0
Operating Transfers Out	(127,227)	(94,595)	(124,834)
Total Other Financing Sources (Uses)	(127,227)	(15,861)	(124,834)
Excess of Revenues Over (Under) Expenditures and Other Uses	(6,449,185)	(949,739)	(291,924)
<u>FUND BALANCE</u> - Beginning of Year	0	1,647,137	1,939,061
<u>FUND BALANCE</u> - End of Year	<u>\$ (6,449,185)</u>	<u>\$ 697,398</u>	<u>\$ 1,647,137</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

GENERAL FUND

COMPARATIVE ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
YEAR ENDED JUNE 30,

	<u>2004</u>	<u>2003</u>
<u>LOCAL SOURCES</u>		
Property Tax	\$ 950,411	\$ 904,541
Interest and Penalties on Delinquent Tax Collections	508	0
Tuition	9,117	0
Earning on Investments and Deposits	6,251	11,697
Other Local Revenues		
Insurance Dividends/Refunds	9,917	8,007
Rental of School Facilities	307	1,161
Contributions	100,000	0
Miscellaneous	21,062	26,052
Total Local Sources	<u>1,097,573</u>	<u>951,458</u>
<u>STATE SOURCES</u>		
Grants-In-Aid Unrestricted		
State School Aid		
Foundation Allowance	3,924,131	4,236,240
Grants-In-Aid Restricted		
State School Aid		
At Risk Program	180,948	238,299
Special Education	149,216	147,590
Gifted and Talented	0	1,904
Durant	6,050	6,050
Early Childhood	92,185	81,471
Drivers Education	3,817	3,709
ASAPI	19,000	51,020
Total State Sources	<u>4,375,347</u>	<u>4,766,283</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

GENERAL FUND

COMPARATIVE ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
YEAR ENDED JUNE 30,

	<u>2004</u>	<u>2003</u>
<u>FEDERAL SOURCES</u>		
Grants-In-Aid Restricted		
Received Through the State		
Title I	281,881	292,703
Title VI Rural Education Achievement Program	1,131	15,673
Improving Teacher Quality State Grant	67,098	57,931
Title V LEA Allocation	3,053	6,681
Technology Literacy Challenge Fund Grants	9,422	3,224
Comprehensive School Reform Demonstration	73,438	74,775
Drug Free Schools and Communities	13,604	2,600
Received Through Intermediate School District		
Rural Utilities Service	18,368	0
Received Through Family Independence Agency		
Family Preservation and Support	22,694	25,000
Payments in Lieu of Taxes		
Bankhead-Jones Act	4,061	3,928
Total Federal Sources	<u>494,750</u>	<u>482,515</u>
<u>OTHER TRANSACTIONS</u>		
Transfers from Other School Districts		
Intermediate School Districts		
Special Education	76,952	49,936
Transition Grant	20,181	0
Transportation	4,247	2,735
Hearing Impaired-Interpreter	0	19,082
Career Preparation	0	12,661
Medicaid Caseload Coordination	9,466	15,450
Other	1,740	1,984
Refund of Prior Year Expenditures	0	5,866
Total Other Transactions	<u>112,586</u>	<u>107,714</u>
Total Revenues	<u>6,080,256</u>	<u>6,307,970</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

GENERAL FUND

COMPARATIVE ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
YEAR ENDED JUNE 30,

	<u>2004</u>	<u>2003</u>
<u>OTHER FINANCING SOURCES</u>		
Loan Proceeds	78,734	0
 TOTAL REVENUES AND OTHER FINANCING SOURCES	 \$ 6,158,990	 \$ 6,307,970

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

GENERAL FUND

COMPARATIVE ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30,

	2004	2003
<u>INSTRUCTION</u>		
<u>Basic Programs</u>		
<u>Elementary</u>		
Salaries	\$ 1,088,165	\$ 945,247
Employee Benefits	424,809	376,726
Purchased Services	75,390	12,772
Supplies and Materials	52,402	25,927
Capital Outlay	3,397	3,380
Other Expenses	0	66,653
Total Elementary	<u>1,644,163</u>	<u>1,430,705</u>
<u>High School</u>		
Salaries	1,024,670	1,009,187
Employee Benefits	499,505	401,865
Purchased Services	29,741	24,316
Supplies and Materials	64,460	52,131
Capital Outlay	8,489	36,863
Other Expenses	0	17,913
Total High School	<u>1,626,865</u>	<u>1,542,275</u>
<u>Pre-Kindergarten</u>		
Salaries	61,949	45,645
Employee Benefits	39,454	25,181
Purchased Services	3,629	1,091
Supplies and Materials	2,042	6,724
Capital Outlay	0	150
Other Expense	0	140
Total Pre-Kindergarten	<u>107,074</u>	<u>78,931</u>
<u>Added Needs</u>		
<u>Special Education</u>		
Salaries	363,832	341,953
Employee Benefits	112,078	121,462
Purchased Services	2,147	1,819
Supplies and Materials	8,318	10,182
Total Special Education	<u>486,375</u>	<u>475,416</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

GENERAL FUND

COMPARATIVE ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30,

	<u>2004</u>	<u>2003</u>
<u>Compensatory Education</u>		
Salaries	387,479	405,155
Employee Benefits	150,175	142,610
Supplies and Materials	2,151	15,712
Total Compensatory Education	<u>539,805</u>	<u>563,477</u>
<u>Alternative Education</u>		
Salaries	758	42,029
Employee Benefits	6,594	20,806
Purchased Services	0	60
Supplies and Materials	343	501
Other Expense	0	356
Total Alternative Education	<u>7,695</u>	<u>63,752</u>
<u>SUPPORTING SERVICES</u>		
<u>Pupil</u>		
<u>Guidance Services</u>		
<u>Regular Program</u>		
Salaries	25,241	24,504
Employee Benefits	10,560	10,339
Purchased Services	186	0
Supplies and Materials	347	138
Total Guidance Services-Regular Program	<u>36,334</u>	<u>34,981</u>
<u>Family School</u>		
Salaries	51,606	58,366
Employee Benefits	15,824	13,539
Purchased Services	2,312	3,385
Supplies and Materials	524	1,172
Total Guidance Services-Family School	<u>70,266</u>	<u>76,462</u>
<u>Other Pupil Services</u>		
Salaries	85,585	104,029
Employee Benefits	16,918	40,828
Purchased Services	0	10,624
Supplies and Materials	1,239	0

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

GENERAL FUND

COMPARATIVE ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30,

	2004	2003
Other Expense	0	2,760
Total Other Pupil Services	103,742	158,241
<u>Instructional Staff</u>		
<u>Educational Media Services</u>		
Salaries	124,947	53,952
Employee Benefits	35,155	17,003
Purchased Services	163	1,613
Supplies and Materials	7,746	20,058
Total Educational Media Services	168,011	92,626
<u>Technology Assisted Instruction</u>		
Salaries	39,658	40,613
Employee Benefits	15,097	26,053
Purchased Services	28,674	30,519
Supplies and Materials	32,298	1,679
Capital Outlay	1,488	31,844
Total Technology Assisted Instruction	117,215	130,708
<u>General Administration</u>		
<u>Board of Education</u>		
Purchased Services	95,853	49,787
Supplies and Materials	323	0
Other Expenses	1,832	1,540
Total Board of Education	98,008	51,327
<u>Executive Administration</u>		
Salaries	198,995	129,815
Employee Benefits	54,022	38,848
Purchased Services	1,011	5,908
Supplies and Materials	26,293	0
Capital Outlay	1,500	0
Other Expense	3,378	5,465
Total Executive Administration	285,199	180,036

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

GENERAL FUND

COMPARATIVE ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30,

	2004	2003
<u>Office of the Principal</u>		
Salaries	337,249	289,777
Employee Benefits	161,250	151,688
Purchased Services	1,434	2,999
Supplies and Materials	8,082	7,009
Capital Outlay	150	337
Other Expenses	4,086	4,623
Total Office of the Principal	512,251	456,433
<u>Business</u>		
<u>Fiscal Services</u>		
Salaries	44,814	35,722
Employee Benefits	25,767	25,118
Purchased Services	29,164	19,037
Supplies and Materials	6,842	4,859
Capital Outlay	1,025	2,758
Other Expenses	0	1,920
Total Fiscal Services	107,612	89,414
<u>Other Business Services</u>		
Other Expenses		
Interest on Notes and Loans	615	0
<u>Operations and Maintenance</u>		
Salaries	146,953	151,290
Employee Benefits	87,584	91,943
Purchased Services	139,156	232,902
Supplies and Materials	154,998	32,402
Capital Outlay	144,147	38,196
Other Expense	0	29,586
Total Operation and Maintenance of Plant	672,838	576,319
<u>Pupil Transportation Services</u>		
Salaries	187,168	201,091
Employee Benefits	134,744	104,709
Purchased Services	9,833	20,526

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

GENERAL FUND

COMPARATIVE ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30,

	2004	2003
Supplies and Materials	96,455	68,430
Capital Outlay	0	67,095
Other Expense	0	4,612
Total Pupil Transportation Services	428,200	466,463
<u>OTHER TRANSACTIONS</u>		
Adjustment to Prior Year	0	7,494
Interest on Long Term Loans	1,866	0
Total Other Transactions	1,866	7,494
Total Expenditures	7,014,134	6,475,060
<u>OTHER FINANCING USES</u>		
Transfers Out		
School Service Funds		
Athletic Activities	94,595	123,879
Capital Projects Fund	0	955
Total Other Financing Uses	94,595	124,834
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 7,108,729	\$ 6,599,894

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

SPECIAL REVENUE (SCHOOL SERVICE) FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2004
WITH COMPARATIVE TOTALS FOR JUNE 30, 2003

	FOOD SERVICE FUND	ATHLETIC ACTIVITIES FUND	TOTAL	
			2004	2003
<u>ASSETS</u>				
Cash	\$ 31,797	\$ 1,008	\$ 32,805	\$ 20,924
Inventory	7,410	0	7,410	8,565
Investments	2,499	0	2,499	2,480
TOTAL ASSETS	<u>\$ 41,706</u>	<u>\$ 1,008</u>	<u>\$ 42,714</u>	<u>\$ 31,969</u>
<u>LIABILITIES</u>				
Accounts Payable	\$ 147	\$ 0	\$ 147	\$ 143
Due to Other Funds	21,653	0	21,653	12,347
Total Liabilities	<u>21,800</u>	<u>0</u>	<u>21,800</u>	<u>12,490</u>
<u>FUND BALANCE</u>				
Reserved for Inventory	7,410	0	7,410	8,565
Unreserved				
Designated for:				
Food Service and Athletic Activities	12,496	1,008	13,504	10,914
Total Fund Balance	<u>19,906</u>	<u>1,008</u>	<u>20,914</u>	<u>19,479</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 41,706</u>	<u>\$ 1,008</u>	<u>\$ 42,714</u>	<u>\$ 31,969</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

SPECIAL REVENUE (SCHOOL SERVICE) FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2004
WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2003

	FOOD SERVICE FUND	ATHLETIC ACTIVITIES FUND	TOTAL	
			2004	2003
<u>REVENUES</u>				
Local Sources	\$ 65,695	\$ 39,892	\$ 105,587	\$ 108,476
State Sources	16,168	0	16,168	15,089
Federal Sources	147,740	0	147,740	154,328
Total Revenues	229,603	39,892	269,495	277,893
<u>EXPENDITURES</u>				
Salaries	86,755	63,542	150,297	155,556
Employee Benefits	33,883	13,158	47,041	53,095
Purchased Services	8,283	18,145	26,428	28,210
Supplies and Materials	97,872	20,555	118,427	121,072
Capital Outlay	0	2,080	2,080	12,546
Other Expense	0	18,382	18,382	17,716
Total Expenditures	226,793	135,862	362,655	388,195
Excess of Revenues Over (Under) Expenditures	2,810	(95,970)	(93,160)	(110,302)
<u>OTHER FINANCING SOURCES</u>				
Operating Transfers In	0	94,595	94,595	123,879
Excess of Revenues and Other Sources Over (Under) Expenditures	2,810	(1,375)	1,435	13,577
<u>FUND BALANCE</u> - Beginning of Year	17,096	2,383	19,479	5,902
<u>FUND BALANCE</u> - End of Year	\$ 19,906	\$ 1,008	\$ 20,914	\$ 19,479

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

FOOD SERVICE FUND

COMPARATIVE BALANCE SHEET
JUNE 30,

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Cash	\$ 31,797	\$ 18,541
Inventory		
Supplies	1,022	693
Food Purchased	6,388	7,872
Investments	2,499	2,480
TOTAL ASSETS	<u>\$ 41,706</u>	<u>\$ 29,586</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 147	\$ 143
Due to Other Funds	21,653	12,347
Total Liabilities	<u>21,800</u>	<u>12,490</u>
<u>FUND BALANCE</u>		
Reserved for Inventory	7,410	8,565
Unreserved		
Designated for Food Service	12,496	8,531
Total Fund Balance	<u>19,906</u>	<u>17,096</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 41,706</u>	<u>\$ 29,586</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2004
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2003

	<u>2004</u>		<u>2003</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Local Sources			
Earnings on Investments and Deposits	\$ 300	\$ 36	\$ 76
Food Sales	70,550	65,534	65,580
Miscellaneous	1,700	125	0
State Sources			
State Aid	12,100	16,168	15,089
Federal Sources			
Federal Aid	129,500	130,568	132,762
U.S.D.A. Commodities	0	17,172	21,566
Total Revenues	<u>214,150</u>	<u>229,603</u>	<u>235,073</u>
<u>EXPENDITURES</u>			
Salaries	79,200	86,755	78,165
Employee Benefits	49,547	33,883	37,248
Purchased Services	3,900	8,283	13,345
Supplies and Materials	75,800	97,872	91,673
Capital Outlay	3,000	0	0
Other Expenses	1,500	0	1,745
Total Expenditures	<u>212,947</u>	<u>226,793</u>	<u>222,176</u>
Excess of Revenues Over (Under) Expenditures	1,203	2,810	12,897
<u>OTHER FINANCING SOURCES</u>			
Operating Transfers In (Out) - General Fund	<u>(9,000)</u>	<u>0</u>	<u>0</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(7,797)	2,810	12,897
<u>FUND BALANCE</u> - Beginning of Year	<u>20,766</u>	<u>17,096</u>	<u>4,199</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 12,969</u>	<u>\$ 19,906</u>	<u>\$ 17,096</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

ATHLETIC ACTIVITIES FUND

COMPARATIVE BALANCE SHEET
JUNE 30,

	2004	2003
	<hr/>	
<u>ASSETS</u>		
Cash	\$ 1,008	\$ 2,383
	<hr/>	
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	\$ 0	\$ 0
<u>FUND BALANCE</u>		
Unreserved		
Designated for Athletic Activities	1,008	2,383
	<hr/>	
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,008	\$ 2,383
	<hr/>	

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

ATHLETIC ACTIVITIES FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2004
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2003

	<u>2004</u>		<u>2003</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Local Sources			
Admissions	\$ 25,500	\$ 22,931	\$ 25,354
Tournaments	0	5,008	8,812
Training Camps	0	4,683	1,006
Donations	300	100	825
Sales	0	3,291	5,369
Programs	0	1,240	0
Miscellaneous	6,000	2,639	1,454
Total Revenues	31,800	39,892	42,820
<u>EXPENDITURES</u>			
Salaries	88,920	63,542	77,391
Employee Benefits	18,353	13,158	15,847
Purchased Services	16,500	18,145	14,865
Supplies and Materials	21,700	20,555	29,399
Capital Outlay	2,000	2,080	12,546
Other Expense	6,350	18,382	15,971
Total Expenditures	153,823	135,862	166,019
Excess of Revenues Over (Under) Expenditures	(122,023)	(95,970)	(123,199)
<u>OTHER FINANCING SOURCES</u>			
Operating Transfers In - General Fund	122,023	94,595	123,879
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	0	(1,375)	680
<u>FUND BALANCE</u> - Beginning of Year	0	2,383	1,703
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 1,008	\$ 2,383

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

DEBT RETIREMENT FUNDS

COMBINING BALANCE SHEET
JUNE 30,

	<u>BOND ISSUE OF</u>		<u>TOTALS</u>	
		2000		
	2000	REFUNDING	2004	2003
<u>ASSETS</u>				
Cash	\$ 80,233	\$ 117,747	\$ 197,980	\$ 197,103
Taxes Receivable	180	238	418	472
Due From Other Funds	4,495	0	4,495	0
TOTAL ASSETS	<u>\$ 84,908</u>	<u>\$ 117,985</u>	<u>\$ 202,893</u>	<u>\$ 197,575</u>
<u>LIABILITIES</u>				
Due to Other Funds	<u>\$ 0</u>	<u>\$ 4,495</u>	<u>\$ 4,495</u>	<u>\$ 275</u>
<u>FUND BALANCE</u>				
Reserved for Debt Retirement	<u>84,908</u>	<u>113,490</u>	<u>198,398</u>	<u>197,300</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 84,908</u>	<u>\$ 117,985</u>	<u>\$ 202,893</u>	<u>\$ 197,575</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

DEBT RETIREMENT FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2004

WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2003

	<u>BOND ISSUE OF</u>		<u>TOTALS</u>	
		2000		
	2000	REFUNDING	2004	2003
<u>REVENUES</u>				
Local Sources				
Property Tax Levy	\$ 111,617	\$ 177,573	\$ 289,190	\$ 296,065
Earnings on Investments and Deposits	562	825	1,387	1,565
Other Transactions				
Refund of Prior Year Taxes				
Previously Written Off	151	325	476	113
Total Revenues	112,330	178,723	291,053	297,743
<u>EXPENDITURES</u>				
Redemption of Serial Bonds	25,000	85,000	110,000	100,000
Interest on Debt	85,419	93,108	178,527	183,339
Paying Agent Dues and Fees	275	275	550	48
Professional Fees - Audit	595	0	595	400
Taxes Abated and Written off	80	203	283	0
Total Expenditures	111,369	178,586	289,955	283,787
Excess of Revenues Over (Under) Expenditures	961	137	1,098	13,956
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating Transfers In	0	0	0	19,731
Operating Transfers Out	0	0	0	(19,731)
Total Other Financing Sources (Uses)	0	0	0	0
Excess of Revenues and Other Sources Over (Under) Expenditures & Other Uses	961	137	1,098	13,956
<u>FUND BALANCE</u> - Beginning of Year	83,947	113,353	197,300	183,344
<u>FUND BALANCE</u> - End of Year	\$ 84,908	\$ 113,490	\$ 198,398	\$ 197,300

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004
WITH COMPARATIVE TOTALS FOR JUNE 30, 2003

PRIVATE PURPOSE TRUST FUNDS				
	B. DEE DEE MANCHA-HAMMAR MEMORIAL	WHITE-HELFRICH LOAN FUND	DORALD L. GIDDINGS SCHOLARSHIP TRUST	JENNIE P. OPPER LOAN FUND
<u>ASSETS</u>				
Cash	\$ 990	\$ 14,152	\$ 1,155	\$ 2,850
Interest Receivable	0	11,521	0	0
Scholarship Loans	0	89,755	0	0
Investments	3,577	52,662	8,397	94,274
 TOTAL ASSETS	 \$ 4,567	 \$ 168,090	 \$ 9,552	 \$ 97,124
 <u>LIABILITIES AND FUND BALANCE</u>				
 <u>LIABILITIES</u>	 \$ 0	 \$ 0	 \$ 0	 \$ 0
 <u>NET ASSETS</u>				
Reserved for				
Endowments	0	0	9,552	0
Student Loans	0	168,090	0	97,124
Student Scholarships	4,567	0	0	0
 Total Net Assets	 4,567	 168,090	 9,552	 97,124
 TOTAL LIABILITIES AND NET ASSETS	 \$ 4,567	 \$ 168,090	 \$ 9,552	 \$ 97,124

TOTALS	
2004	2003
\$ 19,147	\$ 12,259
11,521	9,834
89,755	85,619
158,910	66,642
<hr/>	
\$ 279,333	\$ 174,354
<hr/>	

\$ 0	\$ 0
<hr/>	

9,552	9,140
265,214	159,645
4,567	5,569
<hr/>	
279,333	174,354
<hr/>	
\$ 279,333	\$ 174,354
<hr/>	

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

FIDUCIARY FUNDS

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

YEAR ENDED JUNE 30, 2004

WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2003

	PRIVATE PURPOSE TRUST FUNDS			
	B. DEE DEE MANCHA - HAMMAR MEMORIAL	WHITE-HELFRICH LOAN FUND	DORALD L. GIDDINGS SCHOLARSHIP TRUST	JENNIE P. OPPER LOAN FUND
<u>ADDITIONS</u>				
Earnings on Investments and Deposits	\$ 31	\$ 8,655	\$ 65	\$ 274
Donations and Endowments Received	0	0	347	97,000
Total Additions	31	8,655	412	97,274
<u>DEDUCTIONS</u>				
Scholarships	1,000	0	0	0
Bank Charges	33	210	0	150
Total Deductions	1,033	210	0	150
Changes in Net Assets	(1,002)	8,445	412	97,124
<u>NET ASSETS</u> - Beginning of Year	5,569	159,645	9,140	0
<u>NET ASSETS</u> - End of Year	\$ 4,567	\$ 168,090	\$ 9,552	\$ 97,124

TOTALS	
2004	2003
\$ 9,025	\$ 3,326
97,347	0
106,372	3,326
1,000	1,438
393	83
1,393	1,521
104,979	1,805
174,354	172,549
\$ 279,333	\$ 174,354

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
YEAR ENDED JUNE 30, 2004

	BALANCE 7/1/2003	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2004
<u>Elementary and Administrative</u>				
Band Resale-Elementary	\$ 204	\$ 89	\$ 203	\$ 90
Book Store	330	7,903	5,910	2,323
Elementary Book Fair	899	2,658	3,159	398
Elementary Paper and Administrative	6,015	23,168	23,920	5,263
Elementary Pop Account	1,164	1,789	2,033	920
Family School Coordinator	19	0	0	19
Interest Account	35,540	214	6,000	29,754
Interest and Service Charges	233	70	223	80
Pencil and Paper	70	19	21	68
Total Elementary and Administrative	44,474	35,910	41,469	38,915
<u>High School</u>				
Art	0	1,658	1,259	399
Band and Choir	779	9,690	11,421	(952)
Band Resale-High School	91	590	609	72
Class of 2003	175	0	0	175
Class of 2004	131	12,731	13,257	(395)
Class of 2005	1,707	2,797	1,781	2,723
Class of 2006	2,194	6,425	3,581	5,038
Class of 2007	0	14,794	10,107	4,687
Miscellaneous Account	46	1,785	1,766	65
Shop	506	2,405	7,440	(4,529)
Spanish Club	180	3,720	3,730	170
Stuco	2,896	15,151	16,711	1,336
Student Activities	5,196	15,300	19,821	675
Students Against Drunk Driving	280	705	595	390
Yearbook	1,799	2,287	1,340	2,746
Total High School	15,980	90,038	93,418	12,600
Total Elementary, Administrative and High School	\$ 60,454	\$ 125,948	\$ 134,887	\$ 51,515

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
YEAR ENDED JUNE 30, 2004

	BALANCE 7/1/2003	RECEIPTS DISBURSEMENTS (Including Transfers)	BALANCE 6/30/2004
Represented By			
Assets			
Elementary and Administrative			
Cash	\$ 14,934		\$ 15,161
Investments	29,540		23,754
Total Elementary and Administrative	44,474		38,915
High School			
Cash	15,980		12,600
TOTAL ASSETS	<u>\$ 60,454</u>		<u>\$ 51,515</u>
Liabilities			
Due to Groups and Organizations	\$ 60,454		\$ 51,515
Balance	<u>0</u>		<u>0</u>
TOTAL LIABILITIES AND BALANCE	<u>\$ 60,454</u>		<u>\$ 51,515</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
SCHEDULE OF 2003 TAX ROLL
YEAR ENDED JUNE 30, 2004

	TAXABLE VALUATION	TAXES ASSESSED	TAXES COLLECTED	TAXES RETURNED DELINQUENT
<u>GENERAL FUND (18.0000 MILLS)</u>				
<u>OSCEOLA COUNTY</u>				
Marion Township	\$ 9,308,009	\$ 167,544	\$ 143,948	\$ 23,596
Middle Branch Township	5,669,168	102,045	88,129	13,916
Highland Township	3,608,485	64,953	56,892	8,061
Sherman Township	1,369,359	24,648	22,222	2,426
Sylvan Township	309,840	5,577	5,145	432
Hartwick Township	11,938	215	215	0
Rose Lake Township	3,700	67	67	0
<u>CLARE COUNTY</u>				
Winterfield Township	23,288,846	419,199	400,970	18,229
Redding Township	9,231,254	166,163	140,825	25,338
	<u>\$ 52,800,599</u>	<u>\$ 950,411</u>	<u>\$ 858,413</u>	<u>\$ 91,998</u>
<u>2000 DEBT RETIREMENT FUND (1.1000 MILLS)</u>				
<u>OSCEOLA COUNTY</u>				
Marion Township	\$ 27,681,229	\$ 30,449	\$ 25,338	\$ 5,111
Middle Branch Township	14,788,568	16,267	13,904	2,363
Highland Township	10,836,346	11,920	10,432	1,488
Sherman Township	5,437,140	5,981	4,994	987
Sylvan Township	424,779	467	467	0
Hartwick Township	65,284	72	36	36
Rose Lake Township	50,601	56	56	0
<u>CLARE COUNTY</u>				
Winterfield Township	29,053,780	31,959	29,897	2,062
Redding Township	13,132,435	14,446	11,703	2,743
	<u>\$ 101,470,162</u>	<u>\$ 111,617</u>	<u>\$ 96,827</u>	<u>\$ 14,790</u>
<u>2000 REFUNDING DEBT RETIREMENT FUND (1.7500 MILLS)</u>				
<u>OSCEOLA COUNTY</u>				
Marion Township	\$ 27,681,229	\$ 48,442	\$ 40,310	\$ 8,132
Middle Branch Township	14,788,568	25,880	22,120	3,760
Highland Township	10,836,346	18,964	16,597	2,367
Sherman Township	5,437,140	9,515	7,944	1,571
Sylvan Township	424,779	743	743	0
Hartwick Township	65,284	114	57	57
Rose Lake Township	50,601	89	89	0
<u>CLARE COUNTY</u>				
Winterfield Township	29,053,780	50,844	47,563	3,281
Redding Township	13,132,435	22,982	18,618	4,364
	<u>\$ 101,470,162</u>	<u>\$ 177,573</u>	<u>\$ 154,041</u>	<u>\$ 23,532</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

COMPARATIVE SCHEDULE OF INVESTMENTS
JUNE 30,

	<u>2004</u>		<u>2003</u>	
	<u>RATE</u>	<u>AMOUNT</u>	<u>RATE</u>	<u>AMOUNT</u>
<u>GENERAL FUND</u>				
General Operating Account				
Money Market Fund	0.86 %	\$ 389,628	0.88 %	\$ 719,715
<u>SPECIAL REVENUE (SCHOOL SERVICE) FUND</u>				
Food Service				
Money Market Fund	0.86 %	2,499	0.88 %	2,480
<u>FIDUCIARY FUNDS</u>				
Money Market Fund	0.86 %	<u>182,664</u>	0.88 %	<u>96,182</u>
		\$ <u>574,791</u>		\$ <u>818,377</u>

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
BOND PAYMENT SCHEDULE
1998 BOND ISSUE - DURANT SETTLEMENT

JUNE 30, 2004

<u>TITLE OF ISSUE</u>	1998 School Improvement Bond
<u>PURPOSE</u>	For purposes permitted in Section 1351(1) of Act-451, Public Acts of Michigan
<u>DATE OF ISSUE</u>	November 24, 1998
<u>INTEREST PAYABLE</u>	May 15th of each year
<u>AMOUNT OF ISSUE</u>	\$ 60,497
<u>AMOUNT REDEEMED</u>	
Prior to Current Year	\$ 21,848
During Current Year	<u>0</u> <u>21,848</u>
<u>BALANCE OUTSTANDING - June 30, 2004</u>	<u>\$ 38,649</u>

<u>DUE DATES</u>	<u>INTEREST RATE</u>	<u>REQUIREMENTS</u>		
		<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
May 15, 2005	4.070 %	\$ 0	\$ 0	\$ 0
May 15, 2006	4.070 %	0	4,248	4,248
May 15, 2007	4.070 %	16,430	3,617	20,047
May 15, 2008	4.070 %	3,344	904	4,248
May 15, 2009	4.070 %	3,480	768	4,248
May 15, 2010	4.070 %	3,622	626	4,248
May 15, 2011	4.070 %	3,769	479	4,248
May 15, 2012	4.070 %	3,922	327	4,249
May 15, 2013	4.070 %	4,082	167	4,249
		<u>\$ 38,649</u>	<u>\$ 11,136</u>	<u>\$ 49,785</u>

<u>REDEMPTION PRIOR TO MATURITY</u>	This bond does not provide for redemption prior to maturity.
<u>TAX LEVY FOR RETIREMENT OF BONDS</u>	The revenues to redeem the 1998 Durant Settlement Bond issue come from yearly transfers of state aid from the State of Michigan. Therefore, no property taxes are levied by the School District to meet this debt obligation.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
BOND PAYMENT SCHEDULE
2000 SCHOOL BUILDING AND SITE BONDS

JUNE 30, 2004

<u>TITLE OF ISSUE</u>	2000 School Building and Site Bonds
<u>PURPOSE</u>	Defray the cost of erecting, furnishing and equipping outdoor athletic/physical education fields and facilities for, and a weight/exercise room addition to, the Middle School/High School and developing and improving the site.
<u>DATE OF ISSUE</u>	August 1, 2000
<u>INTEREST PAYABLE</u>	May 1 and November 1 of each year
<u>AMOUNT OF ISSUE</u>	\$ 1,675,000
<u>AMOUNT REDEEMED</u>	
Prior to Current Year	\$ 50,000
During Current Year	<div style="display: inline-block; text-align: right;">25,000</div> <div style="display: inline-block; text-align: right; border-top: 1px solid black; width: 100px;">75,000</div>
<u>BALANCE OUTSTANDING - June 30, 2004</u>	\$ <u>1,600,000</u>

<u>DUE DATES</u>	INTEREST RATE	REQUIREMENTS		
		PRINCIPAL	INTEREST	TOTAL
November 1, 2004			\$ 42,084	\$ 42,084
May 1, 2005	5.000 %	\$ 25,000	42,085	67,085
November 1, 2005			41,459	41,459
May 1, 2006	5.000 %	30,000	41,460	71,460
November 1, 2006			40,709	40,709
May 1, 2007	5.000 %	40,000	40,710	80,710
November 1, 2007			39,709	39,709
May 1, 2008	5.100 %	50,000	39,710	89,710
November 1, 2008			38,434	38,434
May 1, 2009	5.100 %	60,000	38,435	98,435
November 1, 2009			36,904	36,904
May 1, 2010	5.100 %	70,000	36,905	106,905
November 1, 2010			35,119	35,119
May 1, 2011	5.125 %	80,000	35,120	115,120
November 1, 2011			33,069	33,069

MARION PUBLIC SCHOOLS
MARION, MICHIGAN
BOND PAYMENT SCHEDULE
2000 SCHOOL BUILDING AND SITE BONDS

JUNE 30, 2004

<u>DUE DATES</u>	<u>INTEREST</u>		<u>REQUIREMENTS</u>		
	<u>RATE</u>		<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
May 1, 2012	5.125	%	90,000	33,070	123,070
November 1, 2012				30,763	30,763
May 1, 2013	5.125	%	105,000	30,763	135,763
November 1, 2013				28,072	28,072
May 1, 2014	5.300	%	115,000	28,072	143,072
November 1, 2014				25,025	25,025
May 1, 2015	5.300	%	130,000	25,025	155,025
November 1, 2015				21,580	21,580
May 1, 2016	5.300	%	145,000	21,580	166,580
November 1, 2016				17,737	17,737
May 1, 2017	5.375	%	155,000	17,737	172,737
November 1, 2017				13,572	13,572
May 1, 2018	5.375	%	165,000	13,572	178,572
November 1, 2018				9,137	9,137
May 1, 2019	5.375	%	170,000	9,137	179,137
November 1, 2019				4,569	4,569
May 1, 2020	5.375	%	170,000	4,569	174,569
			\$ 1,600,000	\$ 915,892	\$ 2,515,892

DENOMINATIONS

\$5,000 each or any integral multiple thereof not exceeding the aggregate principal amount for each maturity.

REDEMPTION PRIOR TO MATURITY

The Bonds or portions of Bonds in multiples of \$5,000, maturing on or after May 1, 2011 are subject to redemption prior to maturity at the option of the School District in such order as the School District may determine, by lot within any maturity, on any interest payment date occurring on or after May 1, 2010, at par and accrued interest to the date fixed for redemption.

TAX LEVY FOR RETIREMENT OF BONDS

The bonds will pledge the full faith and credit of the School District for payment of the principal and interest thereon, and will be payable from ad valorem taxes, which may be levied without limitation as to rate or amount.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

BOND PAYMENT SCHEDULE
2000 REFUNDING BONDS

JUNE 30, 2004

<u>TITLE OF ISSUE</u>	2000 Refunding Bonds
<u>PURPOSE</u>	To refund a portion of a prior bond issue of the School District and the costs of issuing the bonds
<u>DATE OF ISSUE</u>	August 1, 2000
<u>INTEREST PAYABLE</u>	May 1 and November 1 of each year
<u>AMOUNT OF ISSUE</u>	\$ 1,915,000
<u>AMOUNT REDEEMED</u>	
Prior to Current Year	\$ 75,000
During Current Year	85,000
	<u>160,000</u>
<u>BALANCE OUTSTANDING</u> - June 30, 2004	\$ <u>1,755,000</u>

<u>DUE DATES</u>	<u>INTEREST</u>		<u>REQUIREMENTS</u>		
	<u>RATE</u>		<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
November 1, 2004				\$ 44,535	\$ 44,535
May 1, 2005	4.750	%	\$ 105,000	44,535	149,535
November 1, 2005				42,041	42,041
May 1, 2006	4.750	%	105,000	42,041	147,041
November 1, 2006				39,547	39,547
May 1, 2007	4.750	%	105,000	39,548	144,548
November 1, 2007				37,054	37,054
May 1, 2008	4.750	%	105,000	37,054	142,054
November 1, 2008				34,560	34,560
May 1, 2009	4.750	%	105,000	34,560	139,560
November 1, 2009				32,066	32,066
May 1, 2010	4.750	%	105,000	32,066	137,066
November 1, 2010				29,572	29,572
May 1, 2011	4.850	%	105,000	29,573	134,573
November 1, 2011				27,026	27,026
May 1, 2012	5.000	%	105,000	27,026	132,026
November 1, 2012				24,401	24,401
May 1, 2013	5.100	%	105,000	24,401	129,401

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

BOND PAYMENT SCHEDULE
2000 REFUNDING BONDS

JUNE 30, 2004

<u>DUE DATES</u>	<u>INTEREST RATE</u>		<u>REQUIREMENTS</u>		
			<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
November 1, 2013				21,724	21,724
May 1, 2014	5.200	%	105,000	21,724	126,724
November 1, 2014				18,994	18,994
May 1, 2015	5.250	%	105,000	18,994	123,994
November 1, 2015				16,237	16,237
May 1, 2016	5.300	%	100,000	16,238	116,238
November 1, 2016				13,587	13,587
May 1, 2017	5.375	%	100,000	13,588	113,588
November 1, 2017				10,900	10,900
May 1, 2018	5.400	%	100,000	10,900	110,900
November 1, 2018				8,200	8,200
May 1, 2019	5.400	%	100,000	8,200	108,200
November 1, 2019				5,500	5,500
May 1, 2020	5.500	%	100,000	5,500	105,500
November 1, 2020				2,750	2,750
May 1, 2021	5.500	%	100,000	2,750	102,750
			\$ 1,755,000	\$ 817,392	\$ 2,572,392

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

BOND PAYMENT SCHEDULE
2000 REFUNDING BONDS

JUNE 30, 2004

DENOMINATIONS

\$5,000 each or any integral multiple thereof not exceeding the aggregate principal amount for each maturity.

REDEMPTION PRIOR TO MATURITY

The Bonds or portions of Bonds in multiples of \$5,000, maturing on or after May 1, 2011 are subject to redemption prior to maturity at the option of the School District in such order as the School District may determine, by lot within any maturity, on any interest payment date occurring on or after May 1, 2010, at par and accrued interest to the date fixed for redemption.

TAX LEVY FOR RETIREMENT OF BONDS

The bonds will pledge the full faith and credit of the school District for payment of the principal and interest thereon, and will be payable from ad valorem taxes, which may be levied without limitation as to rate or amount.

MARION PUBLIC SCHOOLS

MARION, MICHIGAN

SINGLE AUDIT

JUNE 30, 2004

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

SINGLE AUDIT
YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS

	<u>PAGES</u>
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	1-2
Schedule of Expenditures of Federal Awards	3
Notes to Schedule of Expenditures of Federal Awards	4
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	5-6
Summary Schedule of Prior Audit Findings	7
Schedule of Findings and Questioned Costs	8-11
Corrective Action Plan	12

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CERTIFIED PUBLIC ACCOUNTANTS

August 18, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Marion Public Schools
Marion, Michigan

COMPLIANCE

We have audited the compliance of Marion Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Marion Public Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Marion Public Schools' management. Our responsibility is to express an opinion on Marion Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marion Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marion Public Schools' compliance with those requirements.

In our opinion, Marion Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

INTERNAL CONTROL OVER COMPLIANCE

The management of Marion Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Marion Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Marion Public Schools' ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition noted is described in the accompanying schedule of findings and questioned costs as item C, 2004-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described as item C, 2004-1 is a material weakness.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the general-purpose financial statements of Marion Public Schools as of and for the year ended June 30, 2004, and have issued our report thereon dated August 18, 2004. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2003	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2004	ADJUSTMENTS
U.S. Department of Education								
Passed Through Michigan Department of Education (M.D.E.)								
Title I Grants to Local Education Agencies								
Project No. 031530-0203	84.010	\$ 272,653	\$ (16,649)	\$ 256,004	\$ 16,649	\$ 0	\$ 0	\$ 0
Project No. 041530-0304	84.010	277,963	0	0	265,232	277,963	(12,731)	0
Total	84.010	<u>\$ 550,616</u>	<u>\$ (16,649)</u>	<u>\$ 256,004</u>	<u>\$ 281,881</u>	<u>\$ 277,963</u>	<u>\$ (12,731)</u>	<u>\$ 0</u>
Drug Free Schools and Communities								
Project No. 032860-0203	84.186	\$ 2,600	\$ (5,087)	\$ 2,600	\$ 0	\$ (5,087)	\$ 0	\$ 0
Project No. 032860-0304	84.186	5,087	0	0	5,087	0	5,087	0
Project No. 042860-0304	84.186	8,517	0	0	8,517	7,017	1,500	0
Total	84.186	<u>\$ 16,204</u>	<u>\$ (5,087)</u>	<u>\$ 2,600</u>	<u>\$ 13,604</u>	<u>\$ 1,930</u>	<u>\$ 6,587</u>	<u>\$ 0</u>
Title V LEA Allocation								
Project No. 030250-0203	84.298	\$ 6,681	\$ (5,473)	\$ 6,681	\$ 0	\$ (5,473)	\$ 0	\$ 0
Project No. 030250-0304	84.298	5,473	0	0	3,053	5,473	(2,420)	0
Project No. 040250-0304	84.298	12,401	0	0	0	12,401	(12,401)	0
Total	84.298	<u>\$ 24,555</u>	<u>\$ (5,473)</u>	<u>\$ 6,681</u>	<u>\$ 3,053</u>	<u>\$ 12,401</u>	<u>\$ (14,821)</u>	<u>\$ 0</u>
Technology Literacy Challenge Grants								
Project No. 034290-0203	84.318	\$ 7,867	\$ (4,643)	\$ 3,224	\$ 4,643	\$ 0	\$ 0	\$ 0
Project No. 044290-0304	84.318	6,759	0	0	4,779	6,759	(1,980)	0
Total	84.318	<u>\$ 14,626</u>	<u>\$ (4,643)</u>	<u>\$ 3,224</u>	<u>\$ 9,422</u>	<u>\$ 6,759</u>	<u>\$ (1,980)</u>	<u>\$ 0</u>
Comprehensive School Reform Demonstration								
Project No. 021870-0203	84.332	\$ 77,080	\$ (2,305)	\$ 74,775	\$ 2,305	\$ 0	\$ 0	\$ 0
Project No. 031870-0304	84.332	89,597	0	0	71,133	89,597	(18,464)	0
Total	84.332	<u>\$ 166,677</u>	<u>\$ (2,305)</u>	<u>\$ 74,775</u>	<u>\$ 73,438</u>	<u>\$ 89,597</u>	<u>\$ (18,464)</u>	<u>\$ 0</u>
Rural and Low Income Schools								
Project No. 030660-0203	84.358	\$ 16,804	\$ (1,131)	\$ 15,673	\$ 1,131	\$ 0	\$ 0	\$ 0
Project No. 040660-0304	84.358	21,906	0	0	0	21,906	(21,906)	0
Total	84.358	<u>\$ 38,710</u>	<u>\$ (1,131)</u>	<u>\$ 15,673</u>	<u>\$ 1,131</u>	<u>\$ 21,906</u>	<u>\$ (21,906)</u>	<u>\$ 0</u>
Improving Teacher Quality								
Project No. 030520-0203	84.367	\$ 57,931	\$ (9,139)	\$ 57,931	\$ 0	\$ (9,139)	\$ 0	\$ 0
Project No. 030520-0304	84.367	9,139	0	0	9,139	9,139	0	0
Project No. 040520-0304	84.367	69,242	0	0	57,959	69,242	(11,283)	0
Total	84.367	<u>\$ 136,312</u>	<u>\$ (9,139)</u>	<u>\$ 57,931</u>	<u>\$ 67,098</u>	<u>\$ 69,242</u>	<u>\$ (11,283)</u>	<u>\$ 0</u>
Total U.S. Department of Education		<u>\$ 947,700</u>	<u>\$ (44,427)</u>	<u>\$ 416,888</u>	<u>\$ 449,627</u>	<u>\$ 479,798</u>	<u>\$ (74,598)</u>	<u>\$ 0</u>

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2003	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2004	ADJUSTMENTS
U.S. Department of Health and Human Services								
Passed Through Michigan Family Independence Agency								
Family Preservation and Support Services								
Project No. SFSC-00-67005-4	93.556	\$ 25,000	\$ 4,800	\$ 22,801	\$ 2,199	\$ 4,800	\$ 2,199	\$ 0
Project No. SFSC 04-67002	93.556	20,496	0	0	20,496	20,496	0	0
Total	93.556	<u>\$ 45,496</u>	<u>\$ 4,800</u>	<u>\$ 22,801</u>	<u>\$ 22,695</u>	<u>\$ 25,296</u>	<u>\$ 2,199</u>	<u>\$ 0</u>
Total U.S. Department of Health and Human Services		<u>\$ 45,496</u>	<u>\$ 4,800</u>	<u>\$ 22,801</u>	<u>\$ 22,695</u>	<u>\$ 25,296</u>	<u>\$ 2,199</u>	<u>\$ 0</u>
U.S Department of Agriculture								
Passed Through Michigan Department of Education (M.D.E.)								
Child Nutrition Cluster								
National School Lunch								
Section 4 - Total Servings - 031950 and 041950	10.555	\$ 17,511	\$ 0	\$ 0	\$ 17,511	\$ 17,511	\$ 0	\$ 0
Section 11 - Total Servings - 031960 and 041960	10.555	93,259	0	0	93,259	93,259	0	0
Total	10.555	<u>\$ 110,770</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 110,770</u>	<u>\$ 110,770</u>	<u>\$ 0</u>	<u>\$ 0</u>
National School Lunch Breakfast Program								
031970 and 041970	10.553	<u>\$ 19,797</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,797</u>	<u>\$ 19,797</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Child Nutrition Cluster		<u>\$ 130,567</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 130,567</u>	<u>\$ 130,567</u>	<u>\$ 0</u>	<u>\$ 0</u>
Food Distribution								
Entitlement Commodities	10.550	\$ 14,901	\$ 0	\$ 0	\$ 14,901	\$ 14,901	\$ 0	\$ 0
Bonus Commodities	10.550	2,271	0	0	2,271	2,271	0	0
Total	10.550	<u>\$ 17,172</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 17,172</u>	<u>\$ 17,172</u>	<u>\$ 0</u>	<u>\$ 0</u>
Passed Through Clare County								
Schools and Roads								
National Forest Land	10.665	<u>\$ 4,061</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,061</u>	<u>\$ 4,061</u>	<u>\$ 0</u>	<u>\$ 0</u>
Passed Through Wexford-Missaukee Intermediate School								
Rural Utilities Service (RUS)								
Michigan 720-A16	10.855	<u>\$ 18,368</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,368</u>	<u>\$ 18,368</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total U.S. Department of Agriculture		<u>\$ 170,168</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 170,168</u>	<u>\$ 170,168</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Federal Financial Assistance		<u>\$ 1,163,364</u>	<u>\$ (39,627)</u>	<u>\$ 439,689</u>	<u>\$ 642,490</u>	<u>\$ 675,262</u>	<u>\$ (72,399)</u>	<u>\$ 0</u>
					(C)	(B)		

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(A) Significant Accounting Policies Used in Preparing Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting and presents transactions in the same manner as reflected in the general-purpose financial statements of the school district.

(B) Reconciliation of Grant Section Auditor's Report with Schedule of Expenditures of Federal Awards

Management has utilized the Grant Section Auditor's Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.

Current Cash Payments per Grant Section Auditor's Report dated June 30, 2004			\$	618,861
Add Items Not on Grant Section Auditor's Report:				
Amounts Received as Pass Through from				
Family Independence Agency				
Family Preservation and Support		\$	25,296	
Amounts Received Through County				
National Forest Land			4,061	
Amounts Received Through Intermediate School District				
Rural Utilities Service			18,368	
Amounts Received as Payments in Kind				
Food Distribution Program				
Entitlement Commodities			14,901	
Bonus Commodities			2,271	64,897
Less Non-Federal Payments Reported in the Grant Section Auditor's Report:				
Driver Education				
Project No. 036650-38		\$	(3,818)	
School Breakfast Program				
Non-Program Supv. Project No. 036320M-24			(4,678)	(8,496)
Current Year Receipts (Cash Basis) per Schedule of Expenditures of Federal Awards			\$	<u>675,262</u>

(C) Reconciliation of Revenues with Expenditures for Federal Financial Assistance Programs

Revenues from Federal Sources - Per Basic Financial Statements (Page 5)	\$	<u>642,490</u>
Federal Expenditures per Schedule of Expenditures of Federal Awards	\$	<u>642,490</u>

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CERTIFIED PUBLIC ACCOUNTANTS

August 18, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education
Marion Public Schools
Marion, Michigan

We have audited the financial statements of Marion Public Schools as of and for the year ended June 30, 2004, and have issued our report thereon dated August 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether Marion Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Marion Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely effect Marion Public Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item B.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item B to be a material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to the management of Marion Public Schools in a separate letter dated August 18, 2004.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Finding 2003-1 (from the 2002/2003 fiscal year)

The District has a limited number of people involved in the accounting function due to financial constraints in allocating resources to this activity. This condition hampers the ability of the District to adequately segregate duties to enhance internal control.

The District is aware of this limitation and continues to explore cost effective measures to improve this internal control limitation.

This finding is repeated for the current fiscal year.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

A. Summary of Auditor's Results

1. The auditor's report expressed an unqualified opinion on the basic financial statements of Marion Public Schools
2. One reportable condition was disclosed during the audit of the basic financial statements. The reportable condition (see item B below) was also considered to be a material weaknesses.
3. No instances of noncompliance material to the basic financial statements of Marion Public Schools were disclosed during the audit.
4. One reportable condition disclosed during the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. The condition is reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for Marion Public Schools expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Marion Public Schools are reported in Part C of this Schedule.
7. The programs tested as major programs included:
 - a. Title I - CFDA Number 84.010
 - b. Improving Teacher Quality State Grants - CFDA Number 84.367
8. The dollar threshold for distinguishing Types A and B programs was \$300,000.
9. Marion Public Schools did not qualify as a low risk auditee.

B. Findings - General-Purpose Financial Statements Audit

Reportable Condition:

The relatively small number of people involved in the accounting functions of the District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable condition noted above was also considered to be a material weakness.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

QUESTIONED
COSTS

2004-1 U.S. DEPARTMENT OF EDUCATION

N/A

Title I Program – CFDA No. 84.010
Improving Teacher Quality – CFDA No. 84.367
Passed Through Michigan Department of Education
Project No. – All Projects
Grant Period July 1, 2003 to June 30, 2004

Statement of Condition:

The relatively small number of people involved in the accounting functions of the District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties. This reportable condition was considered to be a material weakness.

Criteria:

In an effort to utilize federal funds, expenditures to adequately segregate duties are not considered a priority expenditure. Alternate means of internal control (budgets, grant reporting and management oversight) are considered to be an adequate substitute for segregation of duties in the overall internal control relative to federal program expenditures.

Effect:

Internal control limitation, but, as noted above, alternative procedures appear to provide an adequate replacement.

Cause:

Limited funds available.

Auditor Recommendation:

Additional staff assigned to the fiscal services department if funding for that position becomes available.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

QUESTIONED
COSTS

Auditor Recommendation:

Additional staff assigned to the fiscal services department if funding for that position becomes available.

District Response:

Procedures for improvement will continue to be examined and, if practical, implemented.

2004-2 U.S. DEPARTMENT OF EDUCATION

N/A

Title I -CFDA No. 84.010

Improving Teacher Quality – CFDA No. 84.367

Passed Through Michigan Department of Education

Project No. - All Projects

Grant Period July 1, 2003 to June 30, 2004

Statement of Condition:

The District did not receive certifications from employees who are working 100% of the time in federally funded programs that they acknowledge they worked solely on that program for the period covered.

Criteria:

OMB Circular A-87 requires that where employees are expected to work solely on a single federal award or cost objective, charges for their salaries will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Effect:

Without the required certifications, the District has increased the risk that federal funds may be expended on non-federal expenditures. We however, did not note any unallowable expenditures of this type occurring.

Cause:

The District was not aware of the requirements to obtain certifications for 100% federal funded positions.

Auditor Recommendation:

The District should obtain the required certifications of set forth by OMB Circular A-87.

District Response:

The District will immediately begin to comply with this requirement.

MARION PUBLIC SCHOOLS
MARION, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

QUESTIONED
COSTS

2004-3 U.S. DEPARTMENT OF EDUCATION

N/A

Title I - CFDA No. 84.010

Title V - CFDA No. 84.298

Technology Literacy Challenge Grants - CFDA No. 84.318

Comprehensive School Reform Demonstration - CFDA No. 84.332

Rural and Low Income Schools - CFDA No. 84.358

Improving Teacher Quality - CFDA No. 84.367

Project No. 041530-0304, 030250-0304, 040250-0304, 044290-0304, 031870-0304,
040660-0304, 040520-0304

Grant Period July 1, 2003 to June 30, 2004

Statement of Condition:

The District did not comply with the OMB Circular A-133 requirement related to cash management. During the year the District requested funds in excess of immediate cash needs.

Criteria:

The OMB Circular A-133 compliance supplement requires that the District not request federal funds in excess of immediate cash needs.

Effect:

The effect of poor cash management is that the District has drawn funds beyond amounts spent and 30 days cash needs, which led to excess federal funds on hand at the district, and not available for other uses at the federal level.

Cause:

The District suffered a breakdown in internal controls which allowed these funds to be requested in excess of immediate cash needs.

Auditor Recommendation:

The District should utilize its general ledger system to determine the amount of expenditures related to various grants. The District should then only request what has been spent, or is in accounts payable at the time of the request for funds. We recommend the District contact the Michigan Department of Education to determine if the excess funds should be paid back or netted off future requests for funds.

District Response:

The District agrees that cash management was a problem during the year. The District will immediately implement the auditor recommendation.



Marion Public Schools

ADMINISTRATION

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231-743-2486

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Personnel*

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Executive Assistant/Finance

Larry Johnson
High School Principal
231-743-2836

Mary Larson
Elementary Principal
231-743-6251

Greg Mikulich
*Assistant H.S. Principal/
Athletic Director*
231-743-2231

Steven Miller
*Communications/Technology
Director*

Brad Sikkema
Transportation Director
231-743-2443

Oleda Raymond
Food Service Director

Kris Van Agtmael
Special Education Director

BOARD OF EDUCATION

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President

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Corrective Action Plan

For findings related to the June 30, 2004 year end.

2004-1

Inadequate segregation of duties.

In an effort to utilize federal funds, expenditures to adequately segregate duties are not considered a priority expenditure. Alternative means of internal control (budgets, grant reporting and management oversight) are considered to be an adequate substitute for segregation of duties in the overall internal control relative to federal program expenditures. Procedures for improvement will continue to be examined and, if practical, implemented.

2004-2

Lack of certification of 100 % federally funded employees.

The District was not aware of this requirement, and will immediately comply with it by obtaining necessary certifications.

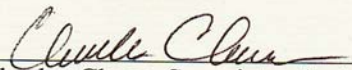
2004-3

Cash Management

The District will comply with the Compliance Supplement related to Cash Management, and will immediately implement our Auditor recommendation related to this issue.

Contact Information:

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Marion Public Schools
501 West Main Street
Marion, MI 49665
231-743-2486


Charles Chase, Superintendent

10/25/04
Date

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